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MDNR

**MCDONNELL DOUGLAS**



28 March 1985

Regional Administrator  
U. S. Environmental Protection Agency  
Region VII  
324 East Eleventh Street  
Kansas City, Missouri 64106  
Attn: Mr. Robert Morby

Regional Administrator  
U. S. Environmental Protection Agency  
Region VI  
1201 Elm Street  
Dallas, Texas 75270  
Attn: Mr. Gerald Fontenot

- REFERENCE:
- (a) McDonnell Douglas Corporation  
EPA ID No.: MOD000818963
  - (b) McDonnell Douglas Corporation  
EPA ID No.: OKD041501347
  - (c) McDonnell Douglas Electronics Co., a  
division of McDonnell Douglas Corporation  
EPA ID No.: MOD075888487
  - (d) McDonnell Douglas Astronautics Co., a  
division of McDonnell Douglas Corporation  
Florida ID No.: FLD 064 824 030

Dear Sirs:

The enclosed documents are hereby submitted to comply with the EPA Guidelines published in the Federal Register. The close of McDonnell Douglas Corporation's fiscal year was 31 December 1984.

The enclosed insurance certificate has been previously submitted, thus only a copy is being provided at this time.

Sincerely,



R00148169  
RCRA RECORDS CENTER

*J. Kevin Coyne*  
J. Kevin Coyne, Section Manager  
Corporate General Insurance

EPA-ARWM/WM

JKC:rjk

MAR 29 1985

Region VII K.C., MO

RECEIVED

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**MCDONNELL DOUGLAS**



21 March 1985

Regional Administrator  
U.S. Environmental Protection Agency  
Region VII  
324 East Eleventh Street  
Kansas City, MO 64106  
Attn: Mr. Robert Morby

Regional Administrator  
U.S. Environmental Protection Agency  
Region VI  
1201 Elm Street  
Dallas, TX 75270  
Attn: Mr. Gerald Fontenot

Mr. Don Hensch  
Oklahoma State Department of Health  
Hazardous Waste Division  
Post Office Box 53551  
Oklahoma City, OK 73152

Dear Sir:

I am the principal financial officer of McDonnell Douglas Corporation, Post Office Box 516, St. Louis, MO 63166. This letter is in support of the use of the financial test to demonstrate financial responsibility for liability coverage and closure and/or post-closure care as specified in Subpart H of 40 CFR Parts 264 and 265.

The owner or operator identified above is the owner or operator of the following facilities for which liability coverage is being demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265:

McDonnell Douglas Corporation  
EPA ID No.: MOD000818963  
P.O. Box 516  
St. Louis, MO 63166

McDonnell Douglas Corporation  
EPA ID No.: OKD041501347  
2000 North Memorial Drive  
Tulsa, OK 74115

McDonnell Douglas Electronics Co., a  
Division of McDonnell Douglas Corporation  
EPA ID No.: MOD075888487  
MO ID No.: 01110  
P.O. Box 426  
St. Charles, MO 63301

McDonnell Douglas Astronautics Co., a  
Division of McDonnell Douglas Corporation  
Florida ID No.: FLD 064 824 030  
P.O. Box 600  
Titusville, FL 32780

The owner or operator identified above owns or operates the following facilities for which financial assurance for closure or post-closure care is demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265. The current closure and/or post-closure cost estimates covered by the test are shown for each facility:

St. Louis Facility  
\$296,900

Tulsa Facility  
\$3,818,101

St. Charles Facility  
\$33,050

Titusville Facility  
\$3,328

The owner or operator identified above guarantees, through the corporate guarantee specified in Subpart H of 40 CFR Parts 264 and 265, the closure and post-closure care of the following facilities owned or operated by its subsidiaries. The current cost estimates for the closure or post-closure care so guaranteed are shown for each facility:

None

In States where EPA is not administering the financial requirements of Subpart H of 40 CFR Parts 264 and 265, this owner or operator is demonstrating financial assurance for the closure or post-closure care of the following facilities through the use of a test equivalent or substantially equivalent to the financial

test specified in Subpart H of 40 CFR Parts 264 and 265. The current closure and/or post-closure cost estimates covered by such a test are shown for each facility:

None

The owner or operator identified above owns or operates the following hazardous waste management facilities for which financial assurance for the closure, or if a disposal facility, post-closure care, is not demonstrated either to EPA or a State through the financial test or any other financial assurance mechanism specified in Subpart H of 40 CFR Parts 264 and 265 or equivalent or substantially equivalent State mechanisms. The current closure and/or post-closure cost estimates not covered by such financial assurance are shown for each facility:

None

This owner or operator is required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

The fiscal year of this owner or operator ends on December 31. The figures for the following items marked with an asterisk are derived from this owner's or operator's independently audited, year-end financial statements for the latest completed fiscal year, ended December 31, 1984.

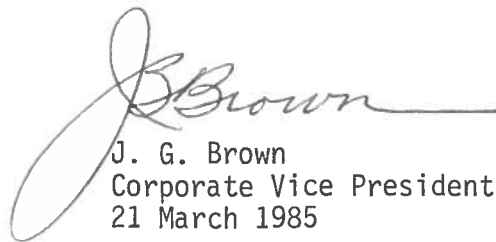
Part B. Closure or Post-Closure Care and Liability Coverage

Alternative II

- |  |                         |
|--|-------------------------|
| 1. Sum of current closure and post-closure cost estimates (total of all cost estimates listed above) | \$ 4,151,379            |
| 2. Amount of annual aggregate liability coverage to be demonstrated                                  | \$ 2,000,000            |
| 3. Sum of Lines 1 and 2  | \$ 6,151,379            |
| 4. Current bond rating of most recent issuance and name of rating service.                           | A-<br>Standard & Poor's |
| 5. Date of issuance bond   | July 01, 1966           |
| 6. Date of maturity of bond  | July 01, 1991           |

- |  |                 |           |
|--|-----------------|-----------|
| * 7. Tangible net worth (if any portion of the closure and post-closure cost estimates is included in "total liabilities" on your financial statements, you may add the amount of that portion to this line) | \$1,904,600,000 |           |
| * 8. Total assets in the U.S. (required only if less than 90 percent of assets are located in the U.S.)  | N/A             |           |
|  | <u>Yes</u>      | <u>No</u> |
| 9. Is Line 7 at least \$10 million?  | X               |           |
| 10. Is Line 7 at least 6 times Line 3?   | X               |           |
| * 11. Are at least 90% of assets located in the U.S.? If not, complete Line 12.  | X               |           |
| 12. Is Line 8 at least 6 times Line 3?   | N/A             |           |

I hereby certify that the wording of this letter is identical to the wording specified in 40 CFR 264.151 (g) as such regulations were constituted on the date shown immediately below.

  
J. G. Brown  
Corporate Vice President-Finance  
21 March 1985

JGB/rs

# Ernst & Whinney

10 Broadway  
St. Louis, Missouri 63102

314/231-7700

McDonnell Douglas Corporation  
St. Louis, Missouri

We have applied certain procedures, as directed below, with respect to selected data contained in J. G. Brown's letter dated 21 March 1985 to the Hazardous Waste Division of the Oklahoma State Department of Health. These procedures were performed solely for inclusion with this letter referred to above, and our report is not to be used for any other purpose. The procedures we performed are summarized as follows:

- a. We determined that the amount included in the letter referred to above for Tangible Net Worth (Total Assets less Deferred Charges and Total Liabilities) was derived from the 31 December 1984 Audited Consolidated Financial Statements of McDonnell Douglas Corporation.
- b. We determined that the assets located in the United States which were included in the Consolidated Balance Sheet of McDonnell Douglas Corporation as of 31 December 1984 exceeded 90% of total assets at that date.

Because the above procedures do not constitute an examination in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. No matters came to our attention that caused us to believe that the specified data should be adjusted. This report relates only to the accounts and items specified above and does not extend to any financial statements of McDonnell Douglas Corporation taken as a whole.

*Ernst & Whinney*

St. Louis, Missouri  
21 March 1985

## REPORT OF ERNST & WHINNEY, INDEPENDENT AUDITORS

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Shareholders and Board of Directors  
McDonnell Douglas Corporation  
St. Louis, Missouri

We have examined the consolidated statement of financial position of McDonnell Douglas Corporation and consolidated subsidiaries as of 31 December 1984 and 1983, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended 31 December 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of McDonnell Douglas Corporation and consolidated subsidiaries at 31 December 1984 and 1983, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended 31 December 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

*Ernst & Whinney*

St. Louis, Missouri - 24 January 1985

CERTIFICATE OF INSURANCE

No. 46a

Date 13 December 1983

CERTIFICATE ISSUED TO

NAMED INSURED AND ADDRESS

United States Environmental Protection  
Agency

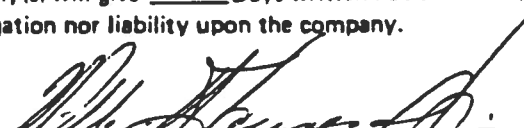
MC DONNELL DOUGLAS CORPORATION  
AND ANY OF ITS DIVISIONS OR  
SUBSIDIARY COMPANIES  
POST OFFICE BOX 516  
ST. LOUIS, MISSOURI 63166

This is to certify that the Central National Insurance Company of Omaha has issued to the Named Insured, insurance affording coverage as indicated below.  
THIS CERTIFICATE OF INSURANCE NEITHER AFFIRMATIVELY NOR NEGATIVELY AMENDS, EXTENDS OR ALTERS THIS COVERAGE AFFORDED BY ANY POLICY DESCRIBED HEREIN.

KIND OF INSURANCE	POLICY NUMBER	COMPANY	POLICY PERIOD	LIMITS OF LIABILITY
Comprehensive General Liability-Products Completed Operation (Excluding Aircraft Products), Contractual Liability, Comprehensive Automobile Liability.	CNS 13-30-35	Central National Ins. Co. of Omaha	8/1/82 to 8/1/85	\$2,000,000. Each Occurrence Single Limit Bodily Injury and Property Damage \$2,000,000. Annual Aggregate

SEE ATTACHED ADDENDUM

In the event of any material change in, or cancellation of, said policies, the company(s) will give 30 Days written notice to the party to whom this certificate is issued, but failure to give such notice shall impose no obligation nor liability upon the company.

  
William A. Lawrence, Jr., Vice President  
Alexander & Alexander Inc.



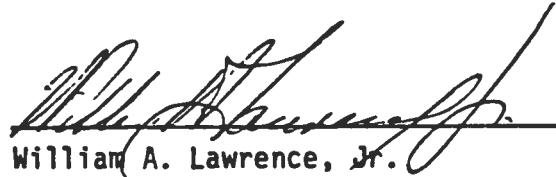
ADDENDUM #1 TO  
CERTIFICATE OF INSURANCE  
#46a  
DATED 12/13/83

1. The Central National Insurance Company, the Insuror, of 3580 Wilshire Boulevard, Los Angeles, California 90010, hereby certifies that it has issued liability insurance covering bodily injury and property damage to McDonnell Douglas Corporation, the Insured, of P. O. Box 516, St. Louis, Missouri 63166, in connection with the Insured's obligation to demonstrate financial responsibility under 40 CFR 264.147 or 265.147. The coverage applies at the Tulsa Facility, EPA I.D. No. OKD041501347, 2000 North Memorial Drive, Tulsa, Oklahoma, at the St. Louis Facilities, EPA I.D. No. MOD000818963, Tracts I and II, Brown, Lindbergh and Banshee Roads, St. Louis, Missouri 63166, at the MDEC Facility, EPA I.D. No. MOD075888487, P. O. Box 426, St. Charles, Missouri, and at the MDAC Facility, Florida I.D. No. FLD 064 824 030, P. O. Box 600, Titusville, Florida, for sudden and accidental occurrences. The limits of liability are \$2,000,000.00 each occurrence and \$2,000,000.00 annual aggregate, exclusive of legal defense costs. The coverage is provided under Policy No. CNS 13-30-35 issued on August 1, 1982. The effective date of said policy is August 1, 1982.
2. The Insuror further certifies the following with respect to the insurance described in Paragraph 1:
  - a) Bankruptcy or insolvency of the Insured shall not relieve the Insuror of its obligations under the policy.
  - b) The Insuror is liable for the payment of amounts within any deductible applicable to the policy, with a right of reimbursement by the Insured for any such payment made by the Insuror. This provision does not apply with respect to that amount of any deductible for which coverage is demonstrated as specified in 40 CFR 264.147 or 265.147.
  - c) Whenever requested by a Regional Administrator of the U. S. Environmental Protection Agency (EPA), the Insuror agrees to furnish to the Regional Administrator a signed duplicate original of the policy and all endorsements.
  - d) Cancellation of the insurance, whether by the Insuror or the Insured, will be effective only upon written notice and only after expiration of sixty (60) days after a copy of such written notice is received by the Regional Administrator(s) of the EPA Region(s) in which the facilities are located.
  - e) Any other termination of the insurance will be effective only upon written notice and only after the expiration of thirty (30) days after a copy of such written notice is received by the Regional Administrator(s) of the EPA Region(s) in which the facilities are located.

ADDENDUM #1 TO  
CERTIFICATE OF INSURANCE  
#46a  
DATED 12/13/83

I hereby certify that the wording of this instrument is identical to the wording specified in 40 CFR 264.151(j) as such regulation was constituted on the date first above written, and that the Insuror is licensed to transact the business of insurance, or eligible to provide insurance as an excess or surplus lines insuror, in one or more States.

Signed by:



William A. Lawrence, Jr.  
Vice President  
Alexander & Alexander, Inc.  
Authorized Representative of  
Central National Insurance Co.  
120 South Central Avenue  
Saint Louis, Missouri 63105

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15 (d) of  
The Securities Exchange Act of 1934

For the fiscal year ended 31 December 1984 Commission file number 1-3685

McDonnell Douglas Corporation  
(Exact name of registrant as specified in its charter)

Maryland  
(State of Incorporation)

43-0400674  
(I.R.S. Employer Identification No.)

Post Office Box 516, St. Louis, MO.  
(Address of principal executive  
offices)

63166  
(Zip Code)

Registrant's telephone number, including area code 314-232-0232

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
<u>Common Stock, par value \$1 a share</u>	<u>New York and Pacific Stock Exchanges</u>
<u>4-3/4% Convertible Subordinated Debentures, due 1 July 1991</u>	<u>New York Stock Exchange</u>

Aggregate market value of common stock held  
by non-affiliates of MDC at 31 January 1985: \$3,004.0 million

Common shares outstanding at 31 January 1985: 40,119,933 shares

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of  
1934 during the preceding 12 months, and (2) has been subject to such filing  
requirements for the past 90 days. Yes X No \_\_\_\_.

Documents Incorporated by Reference:

Portions of the 31 December 1984 annual shareholders' report are incorpor-  
ated by reference into Parts I and II.  
Portions of the proxy statement for the annual meeting to be held on  
22 April 1985 are incorporated by reference into Part III.

PART 1

ITEM 1. BUSINESS

GENERAL

McDonnell Douglas Corporation, together with its subsidiaries, hereinafter sometimes referred to collectively as "MDC", operates principally in four industry segments: combat aircraft; transport aircraft; space systems and missiles; and information systems. The first three segments comprise the Aerospace Group. There are three principal operating divisions within the Aerospace Group engaged in design, development and production of the following principal products: Douglas Aircraft Company, commercial and military transport aircraft; McDonnell Aircraft Company, combat aircraft; and McDonnell Douglas Astronautics Company, space systems and missiles. There are also two principal subsidiary corporations within the Aerospace Group: Hughes Helicopters, Inc., engaged primarily in the design, development and production of commercial and military helicopters and ordnance and McDonnell Douglas Canada, Ltd. engaged in the manufacture in Canada of aircraft subassemblies for MDC. The Information Systems Group is engaged primarily in providing integrated solutions to the complex information system needs of various industries by means of combined computer hardware, software, and communication networking capabilities. MDC through its McDonnell Douglas Finance Corporation subsidiary is also engaged in financing commercial aircraft and other products produced by MDC and in financing a variety of commercial and industrial products produced by others.

Financial information about industry segments included on page 32 of MDC's annual report for the year ended 31 December 1984, is incorporated herein by this reference.

COMBAT AIRCRAFT

MDC, through its McDonnell Aircraft Company (MCAIR) division, has under contract for production or development the F-15 Eagle, the F/A-18 Hornet, and the AV-8B Harrier II.

The F-15 Eagle supersonic, tactical fighter is currently produced for the U.S. Air Force, Israel, and Japan, and also is being manufactured in Japan under a license agreement. MDC delivered 43 F-15's in 1984 and had delivered 877 F-15's by 31 December 1984. The U. S. Defense Department FY 1985 budget includes funds for production of 42 Eagles. In February 1984 it was announced that the U.S. Air Force plans, subject to Congressional appropriation and administrative funding, to buy 392 modified Eagles designated the F-15E. This version retains the original air superiority fighter role and will add the capability to deliver heavy weapon loads accurately at night or under poor visibility conditions.

The F/A-18 Hornet is currently produced as a multi-mission strike fighter for the U.S. Navy and Marine Corps. MDC is prime contractor for the F/A-18 and Northrop Corporation is the major contractor to MDC. Production goes ahead for U. S. Navy and Marine Corps fighter version of the Hornet was approved in June 1981, and production of attack versions was approved in December 1982.

MDC had delivered 202 F/A-18s (including 11 development aircraft) by 31 December 1984. The U.S. Defense Department FY 1985 budget includes funds for production of 84 Hornets. Canada has contracted to purchase 138 CF-18's over eight years under fixed price type contracts, and deliveries began in October 1982. Final assembly of these aircraft is in the U.S. In 1981 Australia selected the F/A-18 as its next generation tactical fighter and attack aircraft. Seventy-five F-18A's have been purchased and deliveries began in 1985. Final assembly of 73 of these aircraft will be in Australia. In 1982, Spain announced its decision to purchase 72 EF-18 aircraft with deliveries to begin in 1986. Spain also has an option to purchase 12 additional EF-18's.

The AV-8B Harrier II vertical/short takeoff and landing (V/STOL) attack aircraft began U.S. Marine Corps service in January 1984 and by year-end 13 had been delivered. This aircraft has higher performance capability than the AV-8A Harrier currently in service with the U.S. Marine Corps. Great Britain and the U.S. Government have agreed to the joint development and production of the AV-8B V/STOL aircraft. MDC is the prime contractor, with British Aerospace (BAe) as principal subcontractor, for production of a planned 328 Harrier II's for the Marine Corps. BAe is prime contractor and MDC principal subcontractor for 62 Harrier II's to be assembled in Britain for the Royal Air Force. The U.S. Department of Defense FY 1985 budget includes funds for production of 32 AV-8B's. In April 1983 Spain announced its decision to acquire 12 AV-8B's from MDC.

In October 1984 the Navy awarded MDC through its Douglas Aircraft Company (DAC) division a full-scale development contract for the T45TS undergraduate jet flight training system. The totally integrated jet pilot training system is comprised of five mutually supportive elements: T-45A aircraft; flight simulators; computer based academics; a computerized training integration system; and contractor logistics support. First flight of the aircraft is planned for December 1987 and the initial operational capability of the integrated training system is scheduled for September 1990.

The AH-64 Apache advanced attack helicopter for the U.S. Army is the largest single program of Hughes Helicopters, Inc. (HHI). This two place, twin-turbine powered helicopter is equipped with laser, infrared and other advanced technology subsystems to detect and track enemy armored vehicles at night and in adverse weather. Armament includes Hellfire missiles, 2.75-inch rockets and the Hughes 30mm CHAIN GUN. The AH-64 program is now entering its fourth production buy. Approximately \$3.8 billion has been appropriated for procurement of up to 315 Apaches, of which approximately \$2.6 billion is for HHI furnished equipment. The first 16 aircraft were delivered to the Army in 1984. DoD has approved plans to acquire a total of 675 Apaches through 1990.

Model 500 series single-turbine light helicopters for commercial and military use are also produced by HHI. The 500D, 500E and 530F commercial models have various configurations and are sold for private/executive transport (4-5 seating), civil government use (law enforcement, emergency medical), remote operations (geological, timber, fisheries, etc.), and general utility. The 500MD and 530MG military versions are sold primarily to free-world foreign governments for light attack and anti-armor applications with a sophisticated array of armament including the TOW anti-tank missile. HHI delivered 119 new and used Model 500 helicopters in 1984.

HHI also has an ordnance business which includes design, development and production of gun and ammunition armament systems. The current product line consists of the 7.62mm, 25mm and 30mm family of CHAIN GUN automatic weapons. Ancillary products include turrets, feed systems, control systems and rocket launchers.

#### Marketing, Major Customer and Competition

See discussions of these subjects on page 6.

#### TRANSPORT AIRCRAFT

MDC, through its Douglas Aircraft Company (DAC) division, currently produces the MD-80 and DC-10 commercial aircraft for sale throughout the world, and the KC-10 transport aircraft for sale to the U.S. Government.

Orders for 103 new MD-80 short to medium range twin-jets were received by DAC in 1984. This was an increase of 60 over the 1983 level. Forty-four new MD-80's were delivered in 1984 compared to 50 in 1983. The decrease in deliveries was mainly due to a strike during the early part of the year. As of 31 December 1984, a total of 1,171 DC-9's and MD-80's had been delivered to commercial and government customers. There were 157 unfilled firm orders and an additional 152 conditional orders and options, for a total backlog of 309 aircraft. In January of 1985 DAC launched the new MD-87, a shortened fuselage and extended range derivative of the MD-80.

The KC-10 Extender is the USAF version of the commercial DC-10 Series 30 convertible freighter aircraft. The KC-10 incorporates features which permit it to refuel U.S. and NATO military aircraft and to transport cargo and personnel at the same time. Development commenced in 1978 and the first flight of the KC-10 took place in the third quarter of 1980. The U.S. Government has ordered a total of 60 KC-10's, 44 of which were included in a multi-year procurement contract signed in December 1982. The yearly funding for the multi-year program is subject to review in the annual Congressional review of the defense budget. A total of 40 KC-10's have been fully funded to date. Twenty-eight KC-10's had been delivered through December 1984, eight in 1984.

Seven firm DC-10 orders were placed in 1984, compared to one in 1983. Two new DC-10-30 aircraft were delivered in 1984. Manufacturing of five additional freighter aircraft has been initiated for delivery during 1986. As of December 1984, 369 DC-10 aircraft had been delivered to 50 DC-10 customers throughout the world.

Notwithstanding this modest resurgence in DC-10 orders, unless MDC receives new orders or a solid assurance of future orders for the DC-10/KC-10 aircraft before the end of 1985, it could become necessary to decide that the tri-jet line must be closed in 1987 when all aircraft now on order will have been completed.

Increasing activity has proceeded at DAC on the C-17, a new USAF heavy military airlifter. The C-17 has been under contract since July 1982. Funding to MDC for Government Fiscal Year 1985 is \$115 million. Full scale engineering development was approved by the Department of Defense in February 1985, subject to annual Government funding.

## Competition

The transport aircraft business is highly competitive. All of MDC's commercial jet aircraft sales are subject to intensive competition from aircraft manufactured by other companies both domestic and foreign, including companies with substantial resources and companies which are nationally owned or subsidized. Competition is on the basis of product suitability to the needs of the customer (a function of existing fleet mix, rate and route structure and other factors), product performance (including factors such as noise, fuel efficiency, maintenance costs), price, financing assistance and service. Transport aircraft sold to the U.S. Government are subject to additional competitive factors. See the discussion under Competition on page 6.

During the period 1975-1984, based on the dollar volume of firm program orders booked, MDC ranked second among all U.S. and Western European manufacturers of commercial jet transports. MDC's annual percent of penetration of total net bookings received by such manufacturers for commercial transports during that period varied from 6.9% to 30.7% and averaged 16.2%. MDC ranked third among U.S. and Western European manufacturers during 1984, receiving an estimated \$3.0 billion (25.6%) of the total net bookings of approximately \$11.8 billion for commercial jet transports received by such manufacturers.

## SPACE SYSTEMS AND MISSILES

MDC, through its McDonnell Douglas Astronautics (MDAC) division, is engaged in a wide variety of programs in the space systems and missiles fields, the principal ones of which are discussed below.

The Delta space booster is used to launch commercial and government satellites into orbit. In 1984 MDC launched four Deltas and one Delta launch is scheduled for 1985. Because the Space Shuttle is now a fully operational launch vehicle, NASA is not expected to place further Delta orders.

MDC's solid fueled, spinning upper stage unit called the Payload Assist Module (PAM) can be used as the third stage of the Delta or with the Space Shuttle. By the end of 1984, MDC had firm orders for 34 PAM-D's of which 22 had been successfully launched, including the first ten commercial launches from the Space Shuttle. A new, more powerful PAM, designated PAM-DII, is under development for use with the Shuttle. Orders for seven PAM-DII's have been received from commercial customers. The first PAM-DII flight is scheduled for 1985. Additionally, the U.S. Air Force is using configurations of two PAM-D motors launched as an upper stage of the Atlas launch vehicle and the PAM-DII from Shuttle for the NAVSTAR Global Positioning Satellite (GPS) Program. Firm orders from 28 PAM-DIIs have been received for the GPS Program.

MDC is prime contractor for the Navy's Harpoon anti-ship missile, a subsonic, all-weather missile with over-the-horizon range and sea-skimming flight performance which can be launched by surface ships, submarines, aircraft and shore batteries and is compatible with current launch and fire control systems. A total of 3,882 Harpoons have been ordered for the U.S. Navy and 17 foreign nations through the U.S. Government, and 3,221 had been delivered by 31 December 1984.

MDC is completing full-scale development work on guidance sets for ship attack and land strike versions of the Tomahawk cruise missile. In 1981 MDC received initial production orders for Tomahawk guidance sets for these versions as well as ground-launched cruise missiles. Initial production orders were also received for launch-control equipment that would be part of European basing of ground-launched cruise missiles. MDC was selected to become a second-source manufacturer of Tomahawk cruise missiles in 1982, and in 1983, was selected as the engineering and integration agent for the Tomahawk weapon system. In December 1984, MDC won 40% of the FY 85 competitive buy for Tomahawk All-Up-Rounds.

MDC, under its development contract, has supported development and operational test of the Mast Mounted sight. MDC received its first production contract for sixteen (16) units in October 1984. Long lead authority for the second production lot of forty-four (44) units was received in August of 1984.

The development contract for the Shoulder-launched Multipurpose Assault Weapon (SMAW) was received in May 1982. The Marine Corps deployed this assault weapon as planned in September 1984. Production contracts have been received for over 80,000 SMAW rockets.

MDC is also engaged in research, study and proposal activities on a number of programs of near term and longer range significance, including derivatives of existing missile systems, advanced missile systems, space laser communication and continued expansion in Space Shuttle related projects including power modules and manufacturing in space concepts.

#### Marketing and Major Customer

The market for products of the combat aircraft (including helicopters), transport aircraft (military portion), and space systems and missiles segments is primarily a government market. The major customers of these segments of MDC's business are the U.S. Government (primarily the Air Force, Army, Navy, Marines and NASA) and its allied and friendly governments. In addition to the normal risks found in any business, companies engaged in supplying military and space equipment to the Government are subject to unusual risks, including dependence on Congressional appropriations and annual administrative allotment of funds, changes in Government policies and consequent potential for termination of contracts for convenience of the Government, time required for design and development, complexity of designs and the rapidity with which they become obsolete, the constant necessity for design improvement, the intense competition for available Government business, the difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work and other factors characteristic of the industry. The loss of a major portion of the U.S. Government business could have a material, adverse effect on MDC.

#### Competition

In the combat aircraft (including helicopters), transport aircraft (military portion), and space systems and missiles segments of its business, MDC encounters intensive competition from numerous firms when attempting to obtain an award as prime contractor or as a principal subcontractor on the relatively few large defense and space programs. Competition exists in the



area of a firm's ability to perform the given task at a lesser cost to the Government, and in its ability to develop and manufacture an item that will accomplish the specified requirement in accordance with a predetermined delivery schedule. Tactical aircraft are designed to fill a variety of missions or roles which can be broadly categorized as air-to-air combat, air-to-ground attack ("strike"), and reconnaissance. Aircraft performing these roles vary significantly in their range and in-weather or night capabilities and may also perform multiple roles with varying degrees of proficiency. Tactical aircraft currently produced by MDC, the F-15 and F-18, both of which have both air-to-air and air-to-ground capabilities, and the AV-8B with air-to-ground capability and secondary air-to-air capability, face competition from other currently produced aircraft, both domestic and foreign, as well as from upgraded or enhanced aircraft no longer produced, and may in the future face competition from other currently produced tactical aircraft as they may be upgraded or enhanced and from new aircraft, some of which perform or may perform multiple roles with varying degrees of proficiency or perform predominately single roles. Tactical aircraft also face current and future competition with surface-to-air missile systems, remotely piloted vehicles, and cruise or other unmanned guided missiles, and vice versa.

Substantial expenditures for design and development may be required without any assurance that such expenditures will result in a contract or that such contract, if awarded, will be profitable. Moreover, the costs of maintaining adequate research and development capabilities are substantial. The extent to which MDC participates in future defense and space programs will depend in large part on its research and development, the productivity of these activities, and MDC's effectiveness as evaluated by the Government in performing current projects. Based on available data, MDC has ranked second in the nation in the dollar value of United States prime defense contract awards in every year since 1978, except for 1981 when it ranked first.

#### INFORMATION SYSTEMS

In 1984 MDC acquired Tymshare, Inc., Computer Sharing Services, Inc., and Science Dynamics Corporation and restructured these companies, together with its existing computer businesses including McDonnell Douglas Automation Company (McAuto) and Microdata Corporation (Microdata), into the Information Systems Group (ISG). The ISG includes the Tymnet value-added communications network, systems for the telephone industry, and a computer system for physicians. The McDonnell Douglas Health Systems Company continues to be the ISG's largest business unit. Microdata, renamed McDonnell Douglas Computer Systems Company in February 1985, manufactures small business computers.

#### Competition

The information systems business is highly competitive. In some markets, companies have carved out leading positions, and the major computer companies, especially IBM, compete in most growth oriented markets.

#### OTHER ACTIVITIES

##### McDonnell Douglas Finance Corporation (MDFC)

This wholly-owned subsidiary is engaged in financing and leasing a variety of equipment, including aircraft, highway vehicles, railroad cars, shipping containers, computers, and medical equipment to approximately 700

customers engaged in over 60 industries. In 1984 82% of MDFC's total volume of new business of \$360 million was outside the commercial aircraft field, and as of 31 December 1984 64% of MDFC's total financing portfolio was outside the commercial aircraft field.

### Competition

MDFC is subject to competition from other financial institutions, including commercial banks, finance companies and leasing companies including full-service leasing companies, some of which are larger than MDFC and have greater financial resources, greater leverage ability and lower effective borrowing costs.

### SUBCONTRACTING, PROCUREMENT AND RAW MATERIALS

The most important raw materials required for MDC products, from the standpoint of aggregate cost, are aluminum (sheet, plate, forgings and extrusions), titanium (sheet, plate, forgings and extrusions) and composites (including graphite and boron). All of these materials are purchased from outside sources. Composites are currently purchased from five suppliers, and although other potential composite suppliers do exist, it would take a year or more before they could become qualified alternate sources of supply.

MDC purchases many components, such as engines and accessories, electrical power systems, radars, landing gears, fuel systems, refrigeration systems, navigational equipment, and flight and engine instruments for use in aircraft; and propulsion systems, guidance systems, telemetry and gyroscopic devices in support of its space systems and missile programs. In addition, fabricated subassemblies such as engine pods and pylons, fuselage sections, wings and empennage surfaces, doors and flaps, are sometimes subcontracted to outside vendors. The Government and commercial customers also furnish many components for incorporation into aircraft and other products they purchase from MDC.

MDC is dependent upon the ability of its large number of suppliers and subcontractors to meet performance specifications, quality standards, and delivery schedules at anticipated costs, and their failure to do so could adversely affect production schedules and contract profitability, while jeopardizing the ability of MDC to fulfill commitments to its customers. MDC has encountered some difficulty from time to time in assuring long-lead time supplies of essential parts, subassemblies, and materials. The Company's success in forestalling shortages of critical commodities over the long term is difficult to predict because many factors affecting such shortages are outside its control.

### EMPLOYEES

At 31 December 1984 the total employment of MDC, including subsidiaries, was 88,391. The year was marked by intensive contract negotiations that resulted in new labor agreements with 11 separate unions which presently cover about 30,000 personnel. The Company believes its employee relations are generally satisfactory.

## PATENTS AND LICENSES

MDC holds many patents and has licenses under patents held by others. The Company does not believe that the expiration of any patent or group of patents, nor the termination of any patent license agreements, other than by reason of its default, would materially affect its business. MDC does not believe that its trademarks, franchises, or concessions are materially important to the conduct of its business.

## ENVIRONMENTAL REGULATIONS

Capital expenditures committed or planned to comply with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the environment, are not material in relation to the financial position of MDC, nor has compliance had a material effect on earnings or the competitive position of MDC.

## RESEARCH AND DEVELOPMENT

Substantial portions of the work performed under Government contracts are research and development work, which are reflected as sales and costs in MDC's financial statements. Company-initiated independent research and development and bid and proposal work amounted to \$370 million in 1984 and \$301 million in 1983. All such amounts are expensed currently.

## FOREIGN OPERATIONS AND EXPORT SALES

Information relative to foreign operations and export sales contained on page 31 of the Annual Report for the year ended 31 December 1984 is incorporated herein by this reference.

## BACKLOG

The backlog of orders at 31 December of the last two years has been as follows:

	1984		1983	
	<u>Backlog</u>	<u>%</u>	<u>Backlog</u>	<u>%</u>
	(Dollars in millions)			
Firm backlog:				
Combat aircraft	\$ 8,842	59.1	\$ 6,874	64.0
Transport aircraft	4,366	29.2	2,679	25.0
Space systems and missiles	<u>1,760</u>	<u>11.7</u>	<u>1,181</u>	<u>11.0</u>
Total Firm Backlog	<u>\$14,968</u>	<u>100.0</u>	<u>\$10,734</u>	<u>100.0</u>
Contingent backlog:				
Combat aircraft	\$4,538	60.6	\$4,646	70.4
Transport aircraft	2,241	29.9	1,613	24.4
Space system and missiles	<u>713</u>	<u>9.5</u>	<u>345</u>	<u>5.2</u>
Total Contingent Backlog	<u>\$7,492</u>	<u>100.0</u>	<u>\$6,604</u>	<u>100.0</u>

Backlog reported is that of the aerospace segments only but includes all but a minor portion of the work to be performed under long-term contracts. Customer options and products produced for short term lease are excluded from backlog.

Contingent backlog includes: (a) U.S. and other government orders not yet funded to us; (b) U.S. and other government orders being negotiated as continuations of authorized programs; and (c) commercial orders subject to contingencies.

The backlog amounts include units scheduled for delivery over extended future periods. Since substantially all work for the U.S. and other governments is accounted for on the percentage of completion method of accounting whereby sales are recorded as work is performed, such amounts included in backlog cannot be segregated on the basis of scheduled deliveries. However, with respect to commercial jetliners and related products included in the Transport Segment (which are accounted for on the delivery method), the firm backlog related to deliveries scheduled after one year was \$1,649 million at 31 December 1984 and \$625 million at 31 December 1983.

The Government may terminate its contracts for default or for its convenience whenever it believes that such termination would be in the best interest of the Government. Under contracts terminated for the convenience of the Government, a contractor is entitled to receive payments for its costs, and, in general, the proportionate share of its fee or earnings for the work done.

## ITEM 2. PROPERTIES

The following table summarizes the approximate building area (in gross square feet) of the principal properties used by MDC at 31 December 1984.

(This space intentionally left blank)

<u>Location</u>	<u>Bldg. Area Owned</u>	<u>Bldg. Area Leased</u>
	(gross square feet)	
Arizona	-0-	649,806*
Mesa/Tempe Area		
California	11,884,196	2,857,021
Los Angeles Area		
Canada	1,775,555	-0-
Toronto Area		
Florida	586,561	31,524
Titusville		
Missouri	9,098,467	2,561,428
St. Louis Area		
Oklahoma	-0-	2,886,342**
Tulsa		
Subtotal	23,344,779	8,986,121
Other Properties		
U.S. and Possessions	269,979	2,910,649
Foreign	<u>113,000</u>	<u>381,958</u>
Subtotal	<u>382,979</u>	<u>3,292,607</u>
Total	<u>23,727,758</u>	<u>12,278,728</u>

\* 570,800 gross square feet leased on 31 December 1984 were purchased in January 1985.

\*\*704,000 gross square feet sublet and not used by MDC.

Principal properties are located in five states and Canada. Those at St. Louis are chiefly devoted to combat aircraft, spacecraft and missile operations, and information systems.

Those at Mesa/Tempe are dedicated to helicopters. In the Los Angeles area principal properties are located in Culver City, Huntington Beach, Long Beach, Torrance and other municipalities. Those at Culver City are used for helicopters. Huntington Beach properties are utilized for research and manufacture of spacecraft, launch vehicles and missiles, and information systems. Long Beach properties are devoted to the development, manufacture, and assembly of transport aircraft, and to information systems. Torrance properties support both transport and combat aircraft business segments. Florida facilities are devoted to production of missiles. Assist work for combat aircraft business segments is performed at Tulsa. Transport and combat aircraft components are produced in Canada for shipment to operations at Long Beach and St. Louis.

To support aircraft operations MDC has long term arrangements with airport authorities enabling it to share the use of runways, taxiways, and other airport facilities at St. Louis, Long Beach, Tulsa and Arizona locations.

Approximately two thirds of the total building area is owned; one third is leased. Individual leases with the U.S. Government cover large areas at St. Louis (757,083 gross square feet) and at Tulsa (2,863,842 gross square feet). The St. Louis lease extends to 30 June 1989 and is renewable at five year intervals to 30 June 1999. A commercial lease covers 1,650,000 gross square feet at Culver City and is extendable in one year increments thru 12/31/87. Numerous leases with various expiration dates cover the remainder of the leased building area.

In the judgement of MDC's management, all of its properties are well maintained and suitable for the purposes for which they are utilized.

### ITEM 3. LEGAL PROCEEDINGS

Northrop Corporation initiated litigation on 26 October 1979 in the United States District Court in Los Angeles, California, concerning the rights and obligations of the parties with respect to the production and sale of F-18 aircraft under certain agreements and conduct of the parties related to such agreements and aircraft. MDC counterclaimed. On 2 December 1980, before trial, the Court dismissed Northrop's complaint and MDC's counterclaims on various grounds, and also granted summary judgment with respect to a number of Northrop's claims and MDC's counterclaims. On 28 February 1983 the Ninth Circuit Court of Appeals reversed the District Court and remanded the matter to the District Court. Both parties have filed amended pleadings. In its amended pleadings Northrop sought damages in an amount not less than \$100.0 million on each of several counts, treble and punitive damages, an award of profits of MDC on the F-18 program, and declaratory, injunctive, and other equitable relief. MDC has denied Northrop's allegations and claims and counterclaimed. In its counterclaim MDC requested declaratory and injunctive relief, damages in amounts exceeding \$250.0 million on each of several counts, including misuse of MDC data on Northrop programs and treble and punitive damages. Northrop denied these allegations and claims. On 21 September 1984, the District Court entered summary judgement that MDC has not violated the federal antitrust laws as alleged by Northrop. The Ninth Circuit has the ruling under consideration. MDC's outside counsel is of the opinion, based on discovery to date and its analysis of the facts and law, that MDC has meritorious defenses to the Northrop claims against MDC and that MDC's claims against Northrop are meritorious. In its opinion the ultimate resolution of Northrop's claims and MDC's counterclaims will not have a material adverse effect on the financial position of the Company.

On November 24, 1982, Laker Airways Limited, as plaintiff, filed an action in the United States District Court for the District of Columbia against the following defendants: Pan American World Airways, Inc., Trans World Airways, Inc., Britain Airways Board, Lufthansa German Airlines, Swissair, Swiss Air Transport Company Limited, British Caledonian Airways Limited, McDonnell Douglas Corporation and McDonnell Douglas Finance Corporation. The Complaint alleges, among other things, that the defendants, in violation of U.S. anti-trust laws, conspired to cause and did cause the plaintiff to cease doing business. The Complaint in this action seeks aggregate damages (including punitive damages) in excess of \$1 billion from the defendants. MDC and MDPC have filed answers denying the allegations.

MDC is a defendant in a number of other legal proceedings in which substantial amounts are sought. Much of such litigation is covered by insurance. MDC anticipates that the amounts, if any, which may be required to be paid as a result of any of these proceedings will not be material in relation to the financial position of MDC.

#### EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of MDC at 31 December 1984 were as follows:

<u>Executive</u>	<u>Positions and Offices Held</u>	<u>Age</u>
David C. Arnold	Corporate Vice President - Productivity	65
Jerry G. Brown	Corporate Vice President - Finance	51
John W. Chase	Corporate Treasurer	44
Walter E. Diggs, Jr.	Corporate Secretary & Associate General Counsel	48
Robert A. Fischer	Corporate Vice President-ISG Executive Board	47
Robert L. Harmon	Corporate Vice President-Civic Affairs	58
Robert L. Johnson	Corporate Vice President - Aerospace Group Executive	64
Gary E. Liebl	Corporate Vice President-ISG Executive Board	43
Robert C. Little	Corporate Vice President - Aerospace Group Executive	59
James H. MacDonald	Corporate Vice President-Human Resources	48
Donald Malvern	Corporate Vice President; President of McDonnell Aircraft Company, a division	63
Marvin D. Marks	Corporate Vice President - Aerospace Engineering & Operations	64
James S. McDonnell III	Corporate Vice President - Aerospace Marketing	48
John F. McDonnell	President	46
Sanford N. McDonnell	Chairman and Chief Executive Officer	62
James T. McMillan	Corporate Vice President; President of McDonnell Douglas Finance Corporation, a subsidiary	59

Gerald J. Meyer	Corporate Vice President-Communications	44
Jack G. Real	Corporate Vice President; President of Hughes Helicopters, Inc., a subsidiary	68
John T. Sant	Corporate Vice President - General Counsel	52
James E. Worsham	Corporate Vice President; President of Douglas Aircraft Company, a division	60
John F. Yardley	Corporate Vice President; President of McDonnell Douglas Astronautics Company, a division	59

The Executive Committee of MDC Board of Directors consists of G. S. Graff, E. S. Jones, J. F. McDonnell, S. N. McDonnell (Chairman) and W. R. Orthwein, Jr.

Sanford N. McDonnell is a cousin of James S. McDonnell III and John F. McDonnell, who are brothers.

All officers serve at the pleasure of the Board of Directors of the Company. All of the above executive officers except Robert A. Fischer, Gary E. Liebl, Jack G. Real, and James E. Worsham have been employees of the Company for at least five years, and Walter E. Diggs, Jr., James H. MacDonald, James S. McDonnell III, James T. McMillan, and John T. Sant have held the above positions for more than five years. David C. Arnold was elected Corporate Vice President-Productivity in 1984, Corporate Vice President in 1971, and was President of McDonnell Douglas Electronics Company from 1970 to 1984. Jerry G. Brown was elected Corporate Vice President-Finance in 1984, Corporate Vice President-Treasurer in 1975, and Staff Vice President-Financial Planning in 1972. John W. Chase was elected Corporate Treasurer in 1984 and Corporate Assistant Treasurer in 1982, and was appointed Director-Treasury Administration in 1975. Robert A. Fischer was appointed to the Information Systems Group (ISG) Executive Board in February 1984, elected Corporate Vice President in March 1983, and appointed President of McDonnell Douglas Automation Company (McAuto) in November 1982. From 1981 to 1982 he was Senior Vice President of National CSS, Inc., a wholly owned subsidiary of Dun & Bradstreet, and from 1979 to 1982, President of its Remote Computer Services Division. Robert L. Harmon was elected Corporate Vice President-Civic Affairs in December 1982, and was elected Corporate Vice President in 1975, at which time he was Executive Vice President-Commercial of McAuto. Robert L. Johnson was elected Corporate Vice President - Aerospace Group Executive in December 1980, appointed President of McDonnell Douglas Astronautics Company (MDAC) in 1975 at which time he was a Corporate Vice President. Gary E. Liebl was appointed to the ISG Executive Board in February 1984, elected Corporate Vice President in July 1983, and elected President of Microdata Corporation in 1981. From 1977 to 1981 he was President of Microdata International Corporation, a subsidiary of Microdata. Robert C. Little was elected



Corporate Vice President - Aerospace Group Executive in April 1982, Corporate Vice President - Operations and Marketing in September 1980, and Corporate Vice President - Engineering & Marketing in 1977. Donald Malvern was appointed President of McDonnell Aircraft Company (MCAIR) in April 1982, and elected a Corporate Vice President in 1974 at which time he was Executive Vice President of MCAIR. Marvin D. Marks was elected Corporate Vice President-Aerospace Engineering & Operations in 1984, Corporate Vice President - Engineering & Research in 1982, and Vice President - Corporate Program Manager - C-X, in 1981. From 1978 to 1981 he was Vice President - Government Marketing of Douglas Aircraft Company (DAC). John F. McDonnell was elected President in October 1980 and Corporate Executive Vice President in 1977. Sanford N. McDonnell was elected Chairman and Chief Executive Officer in October 1980 and President and Chief Executive Officer in 1972. Gerald J. Meyer was elected Corporate Vice President-External Relations in 1981 and was Director-External Relations from 1976 to 1981. Jack G. Real was elected Corporate Vice President in 1984. He has been President of Hughes Helicopters, Inc. since 1979. James E. Worsham was appointed President of DAC in November 1982, and elected Corporate Vice President and appointed Executive Vice President of DAC, both effective March 1982. From 1981 to 1982 he was Vice President - Market Development of General Electric Company (GE) and from 1976 to 1981 he was Vice President - Commercial Engines of GE. John F. Yardley was elected Corporate Vice President and appointed President of MDAC in July 1981. From 1974 to July 1981 he held various positions with NASA, including Associate Administrator Space Transportation Systems. Information in respect of Directors of MDC contained on pages 2 through 6 of MDC's proxy statement for 1984 is incorporated herein by this reference.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter.

### PART II

#### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Identification of the principal exchanges in which MDC's common stock is being traded, high and low sales prices for the stock for each quarterly period, and the frequency and amount of dividends declared with respect to such stock, during the past two years, as stated on page 35 of the Annual Report for the year ended 31 December 1984 are incorporated herein by this reference. The number of holders of record of MDC's common stock at 31 January 1985 was 40,500.

#### ITEM 6. SELECTED FINANCIAL DATA

Selected Financial Data for the five years ended 31 December 1984, consisting of the data captioned Summary of Operations, and Financial Position on 31 December, on pages 34 and 35 of the Annual Report for the year ended 31 December 1984 are incorporated herein by this reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 20 and 21 of the Annual Report for the year ended 31 December 1984 is incorporated herein by this reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of McDonnell Douglas Corporation and Consolidated Subsidiaries, included in the annual report for the year ended 31 December 1984 at the pages indicated, are incorporated herein by this reference.

Consolidated Statement of Financial Position, 31 December 1984 and 1983, pages 22 and 23.

Consolidated Statement of Shareholders' Equity, years ended 31 December 1984, 1983 and 1982, page 24.

Consolidated Statement of Changes in Financial Position, years ended 31 December 1984, 1983 and 1982, page 25.

Consolidated Statement of Earnings, years ended 31 December 1984, 1983, and 1982, page 26.

Notes to Consolidated Financial Statements, 31 December 1984, pages 26 through 31.

The Quarterly Results of Operations on page 35 and the information on Inflation and Changing Prices on page 33 of the Annual Report for the year ended 31 December 1984 are incorporated herein by this reference.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None, not applicable.

PART III

ITEMS 10, 11, 12 and 13

The information called for by Part III, Item 10 "Directors and Executive Officers of the Registrant", Item 11 "Executive Compensation" (except for a list of Executive Officers which is provided in Part I of this Report), Item 12 "Security Ownership of Certain Beneficial Owners and Management", and Item 13 "Certain Relationships and Related Transactions" will be included in a definitive Proxy Statement pursuant to Regulation 141A which is incorporated herein by reference, and which will be filed with the Commission within 120 days after the close of the fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)1. LIST OF FINANCIAL STATEMENTS

The following consolidated financial statements of McDonnell Douglas Corporation and Consolidated Subsidiaries, included in the annual report of the registrant for the year ended 31 December 1984, are incorporated by reference in Item 8:

Consolidated Statement of Financial Position, 31 December 1984 and 1983.

Consolidated Statement of Shareholders' Equity, years ended 31 December 1984, 1983 and 1982.

Consolidated Statement of Changes in Financial Position, years ended 31 December 1984, 1983 and 1982.

Consolidated Statement of Earnings, years ended 31 December 1984, 1983 and 1982.

Notes to Consolidated Financial Statements, 31 December 1984.

(a)2. LIST OF FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statement schedules of McDonnell Douglas Corporation and Consolidated Subsidiaries are included in Item 14(d):

Schedule VII Guarantees of Securities of Other Issuers

Schedule VIII Valuation and Qualifying Accounts

Schedule IX Short-Term Borrowings

Schedule X Supplementary Income Statement Information

All other schedules for which provision is made in the applicable regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)3. EXHIBITS

3. Articles of Restatement of MDC's Charter dated 29 May 1984; Bylaws of MDC as amended 6 March 1985.

4. Instruments defining the rights of security holders, including indentures.

10. McDonnell Douglas Corporation Incentive Compensation Plan, as amended 3 December 1984.
11. Computation of earnings per share.
13. Annual report to security holders, 31 December 1984.
22. Subsidiaries.
24. Consent of Independent Auditors re incorporation of Form 10-K into Registration Statements on Form S-8.
25. Power of attorney authorizing John T. Sant and Walter E. Diggs, Jr. to execute 1984 Report on Form 10-K on behalf of certain Directors and Officers.
- 28a. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Salaried Plan.
- 28b. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Hourly East Plan.
- 28c. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Hourly West Plan.
- 28d. Form 11 K, Employee Savings Plan of Microdata Corporation.
- 28e. Form 11 K, Employee Savings Plan of McAuto Systems Group, Inc.
- 28f. Form 11 K, Employee Thrift Plan of McDonnell Douglas Corporation - Subsidiary Plan

**(b) Reports on Form 8-K filed in the fourth quarter of 1984:**

None.

**(c) Exhibits**

The response to this portion of Item 14 is submitted as a separate section of this report. (See page 20)

**(d) Financial Statement Schedules**

The response to this portion of Item 14 is submitted as a separate section of this report. (See page 346)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MCDONNELL DOUGLAS CORPORATION  
(Registrant)

Date: 6 March 1985

By /s/A. W. Hyland  
Arthur W. Hyland, Staff Vice President -  
Accounting (Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated below.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/S. N. McDonnell</u> Sanford N. McDonnell	Director, Chairman & Chief Executive Officer (Principal Executive Officer)	March 6, 1985
<u>/s/J. G. Brown</u> Jerry G. Brown	Corporate Vice President-Finance (Principal Financial Officer)	March 11, 1985
George H. Capps *	Director	March 6, 1985
Michael N. Chetkovich *	Director	March 6, 1985
William H. Danforth *	Director	March 6, 1985
Donald W. Douglas, Jr. *	Director	March 6, 1985
Elliott M. Estes*	Director	March 6, 1985
George S. Graff *	Director	March 6, 1985
Robert L. Johnson *	Director	March 6, 1985
Edwin S. Jones *	Director	March 6, 1985
Robert C. Little *	Director	March 6, 1985
Jerry McAfee*	Director	March 6, 1985
Donald S. Macdonald*	Director	March 6, 1985
James S. McDonnell III *	Director	March 6, 1985
John F. McDonnell*	Director	March 6, 1985
William R. Orthwein, Jr.*	Director	March 6, 1985

\*By his signature below Walter E. Diggs, Jr. has signed this Form 10-K as Attorney-in-fact on behalf of the persons listed above whose names are followed by an asterisk, pursuant to a Power of Attorney, a copy of which is filed with this Form 10-K.

/s/Walter E. Diggs, Jr.  
Walter E. Diggs, Jr., Attorney-in Fact

MCDONNELL DOUGLAS CORPORATION  
AND CONSOLIDATED SUBSIDIARIES

	<u>Page</u>
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3. Articles of Restatement of MDC's Charter dated 29 May 1984, and MDC's Bylaws as amended 6 March 1985	21
4. Instruments defining the rights of security holders, including indentures.	44
10. McDonnell Douglas Corporation Incentive Compensation Plan, as amended 3 December 1984.	45
11. Computation of earnings per share.	53
13. Annual report to security holders, 31 December 1984.	54
22. Subsidiaries.	94
24. Consent of Independent Auditors re incorporation of Form 10-K into Registration Statements on Form S-8.	95
25. Power of attorney authorizing John T. Sant and Walter E. Diggs, Jr. to execute 1984 Report on Form 10-K on behalf of certain Directors and Officers.	96
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28c. Form 11 K, Employee Savings Plan of McDonnell Douglas Corporation - Hourly West Plan.	182
28d. Form 11 K, Employee Savings Plan of Microdata Corporation.	225
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**MCDONNELL DOUGLAS CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

**FINANCIAL STATEMENT SCHEDULES**

The following financial statement schedules of McDonnell Douglas Corporation and Consolidated Subsidiaries for the year ended 31 December 1984 are included herein:

**Report of Independent Auditors**

**Schedule VII Guarantees of Securities of Other Issuers**

**Schedule VIII Valuation and Qualifying Accounts**

**Schedule IX Short-Term Borrowings**

**Schedule X Supplementary Income Statement Information**

The following financial statements and schedules of McDonnell Douglas Finance Corporation and Subsidiaries, an unconsolidated subsidiary, for the year ended 31 December 1984 are included herein:

**Report of Independent Auditors**

**Consolidated Balance Sheet, 31 December 1984 and 1983**

**Consolidated Statement of Earnings and Earnings Retained for Growth, years ended 31 December 1984, 1983 and 1982**

**Consolidated Statement of Changes in Financial Position, years ended 31 December 1984, 1983 and 1982**

**Notes to Consolidated Financial Statements, 31 December 1984**

**Schedule VIII Valuation and Qualifying Accounts**

**Schedule IX Short-Term Borrowings**

Ernst & Whinney

10 Broadway  
St. Louis, Missouri 63102

314/231-7700

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors  
McDonnell Douglas Corporation  
St. Louis, Missouri

We have examined the consolidated financial statements and related schedules of McDonnell Douglas Corporation and consolidated subsidiaries listed in Item 14 (a) (1) and (2) of the annual report on Form 10-K of McDonnell Douglas Corporation for the year ended 31 December 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of McDonnell Douglas Corporation and consolidated subsidiaries at 31 December 1984 and 1983, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended 31 December 1984, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

*Ernst & Whinney*

St. Louis, Missouri  
24 January 1985



**SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS**  
**McDonnell Douglas Corporation and Consolidated Subsidiaries**

**YEARS ENDED 31 DECEMBER 1984, 1983 AND 1982**  
(Dollars in millions)

COL. A	COL. B	COL. C		COL. D	COL. E
DESCRIPTION	Balance at Beginning of Period	ADDITIONS		Deductions - Describe	Balance at End of Period
		(1) Charged to Costs and Expenses	(2) Charged to Other Accounts - Describe		

Year Ended 31 December 1984:

Allowance for restructure or default of commercial aircraft financing transactions	\$ 45.6	\$ 9.4	\$	\$	\$ 55.0
	<u>6.6</u>	<u>4.9</u>	<u>7.1 - A</u>	<u>4.7 - B</u>	<u>13.9</u>
Allowances for uncollectible accounts	<u>\$ 52.2</u>	<u>\$ 14.3</u>	<u>\$ 7.1</u>	<u>\$ 4.7</u>	<u>\$ 68.9</u>

Year Ended 31 December 1983:

Allowance for restructure or default of commercial aircraft financing transactions	\$ 31.1	\$ 14.5	\$	\$	\$ 45.6
	<u>11.1</u>	<u>1.5</u>		<u>6.0 - B</u>	<u>6.6</u>
Allowances for uncollectible accounts	<u>\$ 42.2</u>	<u>\$ 16.0</u>	<u>\$</u>	<u>\$ 6.0</u>	<u>\$ 52.2</u>

Year Ended 31 December 1982:

Allowance for restructure or default of commercial aircraft financing transactions	\$ 50.0	\$ 30.0	\$	\$ 48.9 - D	\$ 31.1
	<u>7.0</u>	<u>4.2</u>	<u>1.8 - C</u>	<u>1.9 - B</u>	<u>11.1</u>
Allowances for uncollectible accounts	<u>\$ 57.0</u>	<u>\$ 34.2</u>	<u>\$ 1.8</u>	<u>\$ 50.8</u>	<u>\$ 42.2</u>

- A - Acquired in 1984 acquisitions
- B - Uncollectible accounts written off
- C - Principally reclassifications
- D - Settlement

**SCHEDULE VII - GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**McDonnell Douglas Corporation and Consolidated Subsidiaries**

**31 DECEMBER 1984**

(Dollars in millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F	COL. G
NAME OF ISSUER OF SECURITIES GUARANTEED BY PERSON FOR WHICH STATEMENT IS FILED	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person or Persons for Which Statement is Filed	Amount in Treasury of Issuer of Securities Guaranteed	Nature of Guarantee	Nature of Any Default by Issuer of Securities Guaranteed in Principal, Interest, Sinking Fund or Redemption Provisions, or Payment of Dividends
Jet America Airlines, Inc.	Notes	\$ 5.9	None	None	A	None
Korean Airlines	Notes	.1	None	None	B	None
Muse Air	Notes	3.2	None	None	B	None
Republic Airlines	Notes	11.5	None	None	B	None
World Airways, Inc.	Notes	3.6	None	None	B	None
Zambia Airways	Notes	7.5	None	None	B	None
Wardair Canada Ltd.	Debentures	17.6	None	None	C	None

A - Notes sold with recourse.

B - MDC is obligated to purchase notes from holders in the amount shown in Column C, plus unpaid interest, in the event of nonpayment by issuer.

C - MDC is obligated to purchase income debentures in the amount shown in Column C in the event of nonpayment by issuer.

**SCHEDULE IX - SHORT-TERM BORROWINGS**  
**McDonnell Douglas Corporation and Consolidated Subsidiaries**

**YEARS ENDED 31 DECEMBER 1984, 1983 AND 1982**

(Dollars in millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS	Balance at End of Period	Weighted Average Interest Rate	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period	Weighted Average Interest Rate During the Period

Year ended 31 December 1984:

Notes payable to banks	\$ 601.5	9.43%	\$ 677.5	\$ 469.2	10.60%
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Year ended 31 December 1983:

Notes payable to banks	None	N/A	\$ 20.0	\$ .1	10.18%
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Year ended 31 December 1982:

Notes payable to banks	None	N/A	\$ 130.0	\$ 68.8	13.37%
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(1) Computed by dividing the total of daily principal balances by the number of days in the period.

(2) Computed by dividing the actual interest expense by average short-term debt outstanding.

**SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION**  
**McDonnell Douglas Corporation and Consolidated Subsidiaries**

**YEARS ENDED 31 DECEMBER 1984, 1983 AND 1982**

(Dollars in millions)

COL. A	COL. B
ITEM	Charged to Costs and Expenses

**Year Ended 31 December 1984:**

	\$ 178.4
1. Maintenance and repairs	
2. Depreciation and amortization of intangible assets, preoperating costs and similar deferrals	A
3. Taxes, other than payroll and income taxes	A
4. Royalties	A
5. Advertising costs	

**Year Ended 31 December 1983:**

	\$ 145.8
1. Maintenance and repairs	
2. Depreciation and amortization of intangible assets, preoperating costs and similar deferrals	A
3. Taxes, other than payroll and income taxes	A
4. Royalties	A
5. Advertising costs	

**Year Ended 31 December 1982:**

	\$ 138.4
1. Maintenance and repairs	
2. Depreciation and amortization of intangible assets, preoperating costs and similar deferrals	A
3. Taxes, other than payroll and income taxes	A
4. Royalties	A
5. Advertising costs	

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A - Individual amounts not listed or detailed because each was less than 1% of total sales and revenues.

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(Dollars in thousands)

	31 DECEMBER 1984	31 DECEMBER 1983
<b>ASSETS</b>	<b>\$ 9,597</b>	<b>\$ 6,393</b>
Cash	24,695	19,667
Short-term investments		
Investment in finance receivables - Notes A and B:		
Sales-type and direct financing leases:	1,075,538	909,992
Minimum lease payments	131,935	103,802
Residual values	( 412,297)	(351,858)
Less unearned income	<u>795,176</u>	<u>661,936</u>
Notes receivable:	231,355	188,239
Principal	4,899	4,529
Accrued interest	( 2,891)	( 3,462)
Less unamortized discount	<u>233,363</u>	<u>189,306</u>
	1,028,539	851,242
	( 24,781)	( 24,730)
Less allowance for doubtful receivables	<u>1,003,758</u>	<u>826,512</u>
NET INVESTMENT		
Investment in operating leases - equipment cost,	172,986	148,059
net of accumulated depreciation - Note C	4,062	1,461
Equipment held for sale or lease	1,344	504
Advances on equipment to be leased	55,500	62,442
Notes and accounts with McDonnell Douglas Corporation	3,144	3,020
Deferred debt expenses	18,280	15,880
Other assets	<u>\$1,293,366</u>	<u>\$1,083,938</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
Short-term notes payable - Note D:	\$ 101,620	\$ 126,725
Commercial paper	50,547	3,710
Banks	<u>152,167</u>	<u>130,435</u>
Accounts payable and accrued expenses	54,508	39,062
Refundable deposits and advance rentals on leases	5,729	5,318
Deferred federal taxes on income	247,587	209,797
Deferred investment tax credit	47,820	45,837
Long-term debt - Note D:	556,375	459,290
Senior	77,000	52,000
Subordinated	<u>1,141,186</u>	<u>941,739</u>
TOTAL LIABILITIES		
Shareholder's equity:		
Common stock - par value \$100 per share:		
100,000 shares authorized	5,000	5,000
50,000 shares issued and outstanding	75,000	75,000
Capital in excess of par value	72,777	62,272
Earnings retained for growth - Note D	( 597)	( 73)
Foreign currency translation adjustment	<u>152,180</u>	<u>142,199</u>
	<u>\$1,293,366</u>	<u>\$1,083,938</u>

See notes to consolidated financial statements.

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION  
(Dollars in thousands)

<u>YEARS ENDED 31 DECEMBER</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
<b>FUNDS PROVIDED BY</b>			
Operations:	\$ 40,505	\$ 20,327	\$ 16,143
Net earnings			
Non-cash charges:	26,042	22,027	11,627
Depreciation expense	751	531	278
Amortization of deferred debt expenses	9,000	7,000	9,000
Provision for doubtful receivables			
Deferred income taxes and investment tax credit	39,773	52,186	40,035
TOTAL FROM OPERATIONS	<u>116,071</u>	<u>102,071</u>	<u>77,083</u>
Liquidation of notes and leases receivable	103,509	105,867	85,272
Disposition of notes and leases receivable	34,538	13,942	10,009
Proceeds from long-term debt - other	175,161	173,500	221,238
Increase (decrease) in:	15,446	16,066	15,286
Accounts payable	21,732	(14,685)	(52,830)
Short-term debt			
Decrease (increase) in:	6,942	(14,800)	(28,763)
Accounts with McDonnell Douglas Corporation	<u>\$473,399</u>	<u>\$381,961</u>	<u>\$327,295</u>
 <b>FUNDS USED FOR</b>			
Acquisition of:	\$295,401	\$231,438	\$212,655
Notes and leases receivable	7,027		
Predelivery notes			
Cost of equipment:	39,925	32,510	7,060
Operating leases	24,230	13,384	
Full-service leases	8,971	1,012	3,367
Receivables written off		19,735	
Investment in McDonnell Douglas Truck Services, Inc.			
Retirement of long-term debt:		70,000	30,000
McDonnell Douglas Corporation	53,076	8,514	44,623
Other			
Increase (decrease) in:	840	40	371
Advances on equipment to be leased	5,028	43	19,624
Short-term investments	2,601	(1,669)	2,781
Equipment held for sale or lease	3,096	(5,230)	( 622)
Other, net	30,000	11,000	8,000
Cash dividends	3,204	1,184	( 564)
Change in cash	<u>\$473,399</u>	<u>\$381,961</u>	<u>\$327,295</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 1984

A. SUMMARY OF ACCOUNTING POLICIES

Relationship with Parent Company. McDonnell Douglas Finance Corporation (MDFC) is a wholly-owned subsidiary of McDonnell Douglas Corporation (MDC). MDFC purchases from MDC aircraft notes receivable and aircraft for lease to others.

Principles of Consolidation. The consolidated financial statements include the accounts of MDFC and its subsidiaries after elimination of intercompany transactions.

Recognition of Income. Airline notes receivable are purchased from MDC at discounts which are amortized over the lives of the respective notes by the effective rate of interest method. Under this method the total interest plus discount amortization is equal to an amount computed by multiplying the declining discounted value of each note by the fixed effective interest rate of such note.

Sales-type and direct financing leases are accounted for by recognizing as earned income the excess of aggregate rentals over the cost (reduced by estimated residual value at the termination of the lease) of the leased equipment during the term of the lease at an approximately level rate of return on the unrecovered investment computed without regard to the effects of federal income tax deferrals.

Depreciation. Rental equipment under operating leases is recorded at cost and depreciated over the useful life using the straight line method except for aircraft which are depreciated using a declining balance method.

Income Taxes. The operations of MDFC and its subsidiaries are included in the consolidated federal income tax return of MDC. MDFC currently credits or charges MDC for the corresponding increase or decrease in MDC's taxes resulting from such inclusions, but payments between the companies are made when such taxes are due or tax credits are realized by MDC (see Note E).

Investment tax credits on leased equipment are deferred and amortized over the original terms of leases on a basis corresponding to the method of recognizing income from leases and are included in the statement of earnings as operating income except for investment tax credits earned by full service truck leasing operations which are recognized using the flow-through method.

Foreign Currency Translation. The foreign currency translation adjustment, included separately in shareholder's equity, arises from the translation of the United Kingdom subsidiary's financial statements to dollars.

## B. RECEIVABLES

The scheduled aggregate amount of principal payments on notes receivable and installments on sales-type and direct financing leases receivable at 31 December 1984 are as follows: 1985, \$193,924,000; 1986, \$165,810,000; 1987, \$155,301,000; 1988, \$148,539,000; 1989, \$136,537,000; after 1989, \$506,782,000.

Residual values at the end of lease terms are \$131,935,000 at 31 December 1984 (31 December 1983 - \$103,802,000) which includes guaranteed residuals of \$13,235,000 at 31 December 1984 (31 December 1983 - \$6,131,000).

Sales-type and direct financing leases are leases of equipment having an original cost of \$1,188,789,000 at 31 December 1984 (31 December 1983 - \$1,032,830,000). Included in these leases are leveraged leases in the net amount of \$12,494,000 at 31 December 1984 (31 December 1983 - \$11,132,000). Also included are sales-type leases in the net amount of \$40,049,000 at 31 December 1984 (31 December 1983 - \$46,758,000) which are net of related nonrecourse installment notes payable amounting to \$82,211,000 at 31 December 1984 (31 December 1983 - \$90,791,000). Since MDFC has no general obligation on the notes, they are offset against the related leases receivable.

## C. INVESTMENT IN OPERATING LEASES

Investment in operating leases consists of the following:

	31 December 1984	31 December 1983
	(Dollars in thousands)	
Assets:	\$ 87,643	\$ 82,274
Aircraft	76,066	58,385
Full service leasing equipment and contracts	62,296	43,631
Highway vehicles	10,200	10,200
Vessels	9,908	10,189
Railroad rolling stock	7,790	7,790
Computer mainframes	3,249	87
Material handling equipment	1,645	1,645
Shipping containers	872	
Health services	414	414
Construction equipment	260,083	214,615
Accumulated depreciation and amortization	87,097	66,556
Net book value	<u>\$ 172,986</u>	<u>\$ 148,059</u>

At 31 December 1984 minimum rental payments scheduled to be received under the non-cancellable portion of operating leases are as follows: \$42,063,000 in 1985; \$37,054,000 in 1986; \$28,800,000 in 1987; \$18,143,000 in 1988; \$11,088,000 in 1989; and \$10,793,000 thereafter.



#### D. CREDIT AGREEMENTS AND LONG-TERM DEBT

Commercial paper is MDFC's primary source of short-term funds and is backed by the revolving credit agreements referred to below. Of the short-term bank debt, \$50,000,000 was subsequently paid on 2 January 1985.

Under a Eurodollar revolving credit agreement, MDFC can borrow through 19 February 1987 a maximum of \$65,000,000. Borrowings, if any, under this line would be for periods up to four years at fixed rates to be set at the date of each borrowing. Under a domestic revolving credit agreement, MDFC can borrow a maximum of \$150,000,000. The interest rate, at the option of MDFC, will be the London interbank rate plus 3/8 of 1%, Chase Manhattan Bank's prime rate or the short term certificate of deposit rate plus 1/2 of 1%. The borrowings, if any, are convertible at 30 January 1988 into term notes due 30 January 1990. There are no borrowings under either of the agreements as of 31 December 1984.

Short-term notes payable to MDC are issued for 30 days at an interest rate based on the commercial paper rate in effect on the date of issuance of each note.

Senior - other long-term debt consists of the following:

	31 December 1984	31 December 1983
	(Dollars in thousands)	
8.25% Notes due through 1984	\$ 10,000	\$ 123
14.90% Note due 1985	10,000	10,000
16.75% Note due 1985	5,000	5,000
11.65% Note due 1987	12,177	12,177
15.15% Notes due 1987	50,000	50,000
17% Notes due 1989	2,013	3,807
Capital leases due through 1990	23,000	23,000
16.43% Notes due from 1987 through 1991	27,200	30,600
9% Notes due through 1992		
Intermediate and Medium term notes due through 1999	370,400	273,000
Secured debt	46,585	41,583
	<u>\$ 556,375</u>	<u>\$ 459,290</u>

The intermediate and medium term notes bear interest at rates ranging from 9.9% to 16.5% paid semi-annually.

The secured debt is comprised of equipment financing obligations on full service trucks and leases due through 1990 and bears interest at rates ranging from 9.5% to 17.0%. Substantially all of the full service trucks and leases, with a net book value of \$57,067,000 at 31 December 1984, are pledged.

Subordinated long-term debt consists of the following:

	31 December 1984	31 December 1983
	(Dollars in thousands)	
16.25% Note due 1986	\$ 10,000	\$ 10,000
12.50% Note due 1987	5,000	5,000
12.50% Notes due 1991	5,000	
13 % Notes due from 1988 through 1992	15,000	15,000
12.625% Notes due 1992	6,000	6,000
12.75% Notes due 1993	11,000	11,000
12.625% Note due 1993	5,000	5,000
12.35% Note due 1997	20,000	
	<u>\$ 77,000</u>	<u>\$ 52,000</u>

The aggregate amount of long-term debt maturities for the five years ending 31 December 1989 are as follows: 1985, \$113,698,000; 1986, \$100,733,000; 1987, \$83,481,000; 1988, \$55,080,000; 1989, \$95,089,000.

The provisions of various credit and debt agreements require MDC to maintain a minimum net worth, restrict indebtedness, and limit cash dividends and other distributions. Under the most restrictive provision, \$44,832,000 was available for dividends at 31 December 1984.

Included in interest and debt expense is interest on funds borrowed from MDC. The net amount of such interest was \$440,000 in 1984, \$2,959,000 in 1983, and \$17,331,000 in 1982.

#### E. INCOME TAXES

The provision for taxes on income is at an effective tax rate that differs from the United States corporate tax rate. Details relating to the provision for taxes are as follows:

	1984	1983	1982
	(Dollars in thousands)		
Tax computed at federal statutory rate	\$13,035	\$11,152	\$ 8,408
Effect of investment tax credit included	(4,048)	(3,797)	(3,374)
in earnings before income taxes	(3,248)	(2,923)	(2,744)
Effect of dividends subject to 85% deduction	( 566)	( 419)	
Investment tax credit - flow-through method	(1,142)	( 96)	( 154)
Other	<u>\$ 4,031</u>	<u>\$ 3,917</u>	<u>\$ 2,136</u>

The provision for taxes on income includes foreign taxes of \$333,000 in 1984, \$345,000 in 1983, and \$287,000 in 1982.

The Tax Reform Act of 1984 permanently exempts from federal income tax previously deferred earnings of the company's DISC. The adjustment of prior years' tax on DISC earnings is a result of the reversal of deferred taxes previously provided on such earnings.

The income tax payable or receivable for each year may be materially different from the provision for that year, as detailed below:

	1984	1983	1982
	(Dollars in thousands)		
Current taxes payable (receivable)	\$(60,632)	\$(56,700)	\$(45,009)
Investment tax credit deferred for financial reporting purposes	10,672	14,053	9,349
Deferred taxes, resulting from timing differences between financial and tax reporting are:			
Lease income	52,871	44,178	33,833
DISC	932	1,697	2,427
Joint venture - real estate	149	( 266)	873
Other	39	955	663
	<u>\$ 4,031</u>	<u>\$ 3,917</u>	<u>\$ 2,136</u>

#### F. OTHER INCOME, NET

	1984	1983	1982
	(Dollars in thousands)		
Interest income - Producer Loan Notes Receivable	\$ 5,920	\$ 5,466	\$ 4,562
Other interest income	2,209	1,431	1,226
Gain on sale of securities	444		
Income from real estate loan fees	157		
Income from joint venture - real estate		75	1,899
Write-down of residual value of leased equipment	( 1,516)	( 50)	( 159)
Other, net	246	( 89)	72
	<u>\$ 7,460</u>	<u>\$ 6,833</u>	<u>\$ 7,600</u>

#### G. COMMITMENTS

MDFC had commitments to provide leasing and other financing in the aggregate amount of \$50,258,000 at 31 December 1984 (\$58,447,000 at 31 December 1983).

# H. SEGMENT FINANCIAL DATA

Total operating income, earnings (loss) before income taxes and net earnings for the years ended 31 December 1984, 1983 and 1982 and identifiable assets at 31 December 1983, 1982 and 1981 for the Company's industry segments are presented in the following table:

	1984	1983	1982
	(Dollars	in thousands)	
Total operating income:			
Commercial and industrial financing	\$ 68,848	\$ 56,649	\$ 48,504
MDC aircraft financing	59,756	49,858	46,339
Full-service leasing <sup>(1)</sup>	12,319	9,266	
	<u>\$ 140,923</u>	<u>\$ 114,773</u>	<u>\$ 94,843</u>
Earnings (loss) before income taxes:			
Commercial and industrial financing	\$ 6,680	\$ 7,802	\$ 6,824
MDC aircraft financing	22,544	16,728	11,455
Full-service leasing	( 888)	( 286)	
	<u>\$ 28,336</u>	<u>\$ 24,244</u>	<u>\$ 18,279</u>
Net earnings:			
Commercial and industrial financing	\$ 10,406	\$ 9,537	\$ 8,626
MDC aircraft financing	29,890	10,621	7,517
Full-service leasing	209	169	
	<u>\$ 40,505</u>	<u>\$ 20,327</u>	<u>\$ 16,143</u>
Identifiable assets at end of year:			
Commercial and industrial financing	\$ 712,732	\$ 534,885	\$437,151
MDC aircraft financing	476,225	449,345	418,516
Full-service leasing	71,997	61,123	
Corporate assets, principally cash and balances due from MDC	32,412	38,585	26,922
	<u>\$1,293,366</u>	<u>\$1,083,938</u>	<u>\$882,589</u>

(1) Reduced by direct operating expenses, including depreciation.

Depreciation and amortization expense and the cost of equipment acquired for operating leases for the years ended 31 December 1984, 1983 and 1982 for each of the Company's industry segments are included in the following table:

	1984	1983	1982
	(Dollars	in thousands)	
Depreciation and amortization expense:			
Commercial and industrial financing	\$ 10,843	\$ 8,841	\$ 6,562
MDC aircraft financing	3,474	4,261	5,065
Full-service leasing	11,725	8,925	
	<u>\$ 26,042</u>	<u>\$ 22,027</u>	<u>\$ 11,627</u>
Equipment acquired for operating leases, at cost:			
Commercial and industrial financing	\$ 39,925	\$ 32,510	\$ 7,060
Full-service leasing	24,230	13,384	
	<u>\$ 64,155</u>	<u>\$ 45,894</u>	<u>\$ 7,060</u>

A substantial portion of the Company's business, primarily MDC aircraft financing, is conducted with non-U.S. companies.

Operating income, net earnings and identifiable assets for the United States and other countries at 31 December 1984, 1983 and 1982 and for the years then ended were as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
	(Dollars in thousands)		
Operating income:			
United States	\$ 112,452	\$ 94,493	\$ 77,598
Other countries	28,471	20,280	17,245
Total	<u>\$ 140,923</u>	<u>\$ 114,773</u>	<u>\$ 94,843</u>
Net earnings:			
United States	\$ 31,249	\$ 18,934	14,190
Other countries	9,256	1,393	1,953
Total	<u>\$ 40,505</u>	<u>\$ 20,327</u>	<u>16,143</u>
Identifiable assets at end of year:			
United States	\$1,159,429	\$ 937,126	\$726,275
Other countries	133,937	146,812	156,314
Total	<u>\$1,293,366</u>	<u>\$1,083,938</u>	<u>\$882,589</u>

# I. INFLATION AND CHANGING PRICES (UNAUDITED)

Generally accepted accounting principles, as used to prepare the consolidated financial statements, were never meant to measure the effects of inflation and changing prices on enterprises. The Financial Accounting Standards Board has an experiment in process to develop understandable measurements of the effects of inflation, and the data for the Company using the methodologies prescribed in the Standard is presented in the table below.

The Company has categorized all assets and liabilities, except operating leases, as monetary because these amounts generally represent cash, claims to cash, or items that require the payment of a fixed sum of money. There are no material differences between income reported on a historical cost/constant dollar basis and income computed on a current cost basis. Information relative to common share amounts is not presented because the Company is a wholly owned subsidiary of MDC.

Users of financial statements are cautioned against drawing conclusions regarding the impact of inflation on the Company's operations based solely on the data presented. The Financial Accounting Standards Board has indicated that further experimentation is required in order to determine the usefulness of such data. Among the other relevant factors to be considered are the overall demand for borrowed funds, governmental policies, and the spread between the Company's borrowing rates and the rates charged to its customers.

## Supplementary Inflation Data in Average 1984 Dollars (Dollars in thousands)

YEARS ENDED 31 DECEMBER	1984	1983	1982	1981	1980
Operating income, before depreciation expense <sup>(1)</sup>					
Historical dollars	\$166,965	\$136,800	\$106,470	\$ 85,273	\$ 78,907
Constant dollars	166,965	142,622	114,572	97,388	99,465
Net earnings					
Historical dollars	\$ 40,505	\$ 20,327	\$ 16,143	\$ 13,419	
Constant dollars <sup>(2)</sup>	35,274	16,019	11,169	9,052	
Cash dividends					
Historical dollars	\$ 30,000	\$ 11,000	\$ 8,000		\$ 14,000
Constant dollars	30,000	11,468	8,608		17,647
Net assets at end of year					
Historical dollars	\$152,180	\$142,199	\$132,946	\$124,802	
Constant dollars	180,877	175,879	172,356	169,596	
Purchasing power gain (loss) on net monetary items					
Constant dollars	\$ 436	\$ (1,057)	\$ (1,602)	\$ (3,330)	
Average Consumer Price Index-Urban (1967=100%)	311.1%	298.4%	289.1%	272.4%	246.8%

(1) The Company includes income from operating leases net of depreciation in total operating income.

(2) In accordance with FASB No. 33 requirements, adjustments do not include the effects of income taxes.

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES  
 SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS  
 (Dollars in thousands)

Description	Balance at Beginning of Period	Additions		Deductions(2)	Balance at end of Period
		Charged to Costs and Expenses	Other(1)		
Year ended 31 December 1984:					
Allowance for doubtful receivables	\$ 24,730	\$ 9,000	\$ 22	\$ (8,971)	\$ 24,781
Year ended 31 December 1983:					
Allowance for doubtful receivables	\$ 18,691	\$ 7,000	\$ 51	\$ (1,012)	\$ 24,730
Year ended 31 December 1982:					
Allowance for doubtful receivables	\$ 12,895	\$ 9,000	\$ 163	\$ (3,367)	\$ 18,691

(1) These amounts relate to the Company's U. K. subsidiary and were provided at the inception of the related leases by a charge to unearned income.

(2) Losses net of recoveries

MCDONNELL DOUGLAS FINANCE CORPORATION AND SUBSIDIARIES  
SCHEDULE IX - SHORT-TERM BORROWINGS (1)  
(Dollars in thousands)

<u>Category of Aggregate Short-term Borrowings</u>	<u>Balance at end of Period</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period (2)</u>	<u>Weighted Average Interest Rate During the Period (3)</u>
Year ended 31 December 1984:					
Commercial paper	\$101,620	8.85%	\$129,420	\$105,173	10.56%
MDC	-	-	11,700	5,583	10.37%
Banks	50,547	9.39%	50,547	3,544	11.15%
Year ended 31 December 1983:					
Commercial paper	\$126,725	9.88%	\$126,735	\$113,902	9.20%
MDC	-	-	24,000	9,491	9.21%
Year ended 31 December 1982:					
Commercial paper	\$125,120	8.73%	\$125,120	\$106,788	12.16%
MDC	20,000	8.73	108,700	39,301	13.64

- (1) Commercial paper is issued from time to time at various maturities and short-term notes payable to MDC are issued for 30 days.
- (2) Computed by dividing the total of daily principal balances by the number of days in the year.
- (3) Computed by dividing the actual interest expense by averaged short-term debt outstanding.
- (4) The effective interest rate on short-term borrowings including the effect of fees and required compensating balances was 11.37% for 1984, 10.53% for 1983 and 13.47% for 1982.